



Merck Animal Health Forecasting Project

Final Presentation

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Agenda



Topic	Presenter
 Overview Introduction Objective Data Sources Project Charter* 	Abhishek Abhishek Anqi Anqi
 2. Methodology Driven Factors Forecasting Models Forecasting Accuracy Metrics 	Anqi Anqi Benjamin
 3. Results Nobivac Sales Out Nobivac Sales In Activyl Sales Out Activyl Sales In 	Benjamin Shuang Shuang Wendy/Angie
4. Recommendations	Abhishek

Overview Agenda



Topic	Presenter
1. Introduction	Abhishek
2. Objective	Abhishek
3. Data Source	Anqi
4. Project Charter	Anqi



1.Introduction



• Merck & Co, Inc. (MSD) is a \$42B NJ-based pharmaceutical company operating vaccines, medications, and animal health products

Merck Animal Health:

- Second largest in the animal health industry in terms of revenue and market share; Annual revenue: more than \$3B
- Offers veterinarians, pet owners and governments a wide range of pharmaceuticals, vaccines and health management services

• Business Chain:





2. Objectives



- Build demand forecasting models in the US Market
 - Given the timeline, 2 products were chosen:
 - <u>Nobivac</u>: Mature Product
 - Actyvil: Proxy to newly launched product (launched in January 2013)

Objectives fot these two products are:

1. Nobivac

- Forecast Sales In to dertermine its driving factors
- Use forecast models to
 - Prevent stock out
 - Avoid cost of excess inventory

2. Activyl

• Forecast the Sales In behavior for a newly launch product



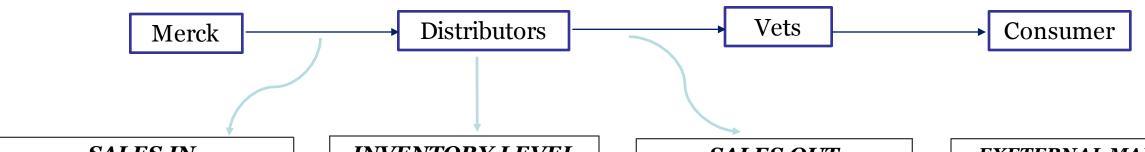
Results

3. Data Sources



Products considered:

- *Nobivac:* **Mature** product, 31 SKUs
- Activyl: Newly Launched product, 24 SKUs



SALES IN

- *Nobivac*: Monthly from January 2013 to March 2016
- <u>Actyvil:</u> Monthly from January 2013 to June 2014

INVENTORY LEVEL

- For each Warehouse
- For actyvil and Nobivac
- In quantity

SALES OUT

- *Nobivac*: Monthly from January 2013 to November 2015
- Actyvil: Monthly from January 2013 to June 2014

Results

EXETERNAL MARKET DATA

- Total shipments accross all competitors
- In Doses converted in quantity
- Only for Nobivac



4.Project Overview - Charter



Project Description

While a forecasting system has been deployed to Merck Animal Health (MAH) US, users are in varying degrees of system adoption and some are still calculating sales and demand forecasts using MS Excel based on historical experience and judgment. The manual calculations are then entered into the system. Management would like to verify whether the system forecasts are reflective of the real demand based on market data.

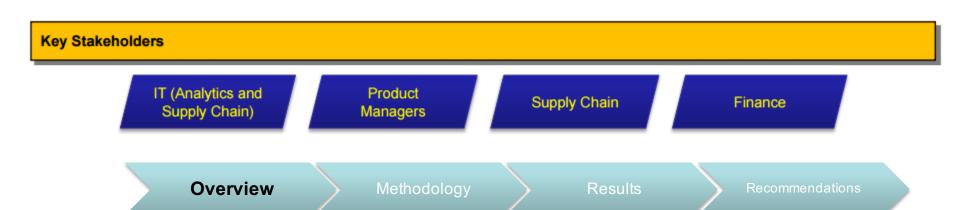
Scope and Deliverables

- For selected products:
 - Design and build analytical forecasting model based on multiple drivers
 - o Calculate forecasts using the model
 - Compare calculated forecasts with current forecast, current inventory on hand at the warehouse, and the production schedule at the production facility
 - Summarize key insights and recommendations



Targeted Business Value

- · Inform sales and finance strategy and planning
- Input to production planning to optimize production capacity based on real market demand
- Optimize revenue by preventing stock outs on SKUs with real market demand
- Avoid cost from carrying excess inventory of SKUs without real market demand





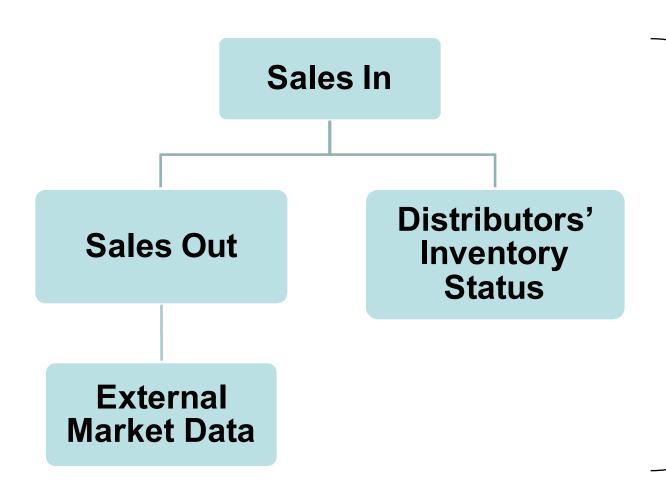
Methodology Agenda



Topic	Presenter		
1. Driving Factors	Anqi		
2. Forecasting ModelsNobivacActivyl	Anqi Anqi		
 3. Accuracy Metrics Demand Forecast Accuracy (DFA) Exponential Weighted Average 	Benjamin Benjamin		

1.Driven Factors





* <u>Trend</u> and <u>Seasonality</u> of historical data are considered in each forecasting model

Different models can be derived based on the flow chart. For example:

- Model 1: <u>Sales In</u> is driven by <u>Historical Sales In</u> and Historical Sales Out
- **Model 2**: Sales In is driven by <u>Historical Sales In</u> and <u>Inventory Status Forecast</u>

Other Factors:

- Sales Out
- Vet's current inventory status;
- Customer behavior (due to extreme weather, disease outbreak, etc.)
- Sales In
- Price Competitiveness



2. Forecasting Models - Nobivac



3 types of model were built to assess the **tradeoff** accuracy/time:

Out

- **Sku-Level**: 31 models
- Cluster-Level: 5 Clusters formed based on correlations between Sales In quantities
- **Product-Level**: 1 model applied for every SKU

2 steps were needed for each level of forecast:

Forecast Sales out 2. Forecast Sales In External External Market Market Data Data **Granger Causality Test:** Determine input factors **Forecasting** Transfer Function Model Forecasting Inventory Model For Model For Sales Out Cross-validation with out of sample Status Sales Out Sales In and out of time period data to choose the best combination of factors Historical Sales



Historical

Sales In

2. Forecasting Models - Activyl



- Previous modeling approach didn't work for Activyl because:
 - Poor quality of 2013 data
 - Few data points available for training

3 types of model were built:

- **Sku-Level** (24 models)
- **Product-Level** (1 model)
- Cluster-Level :
 - by <u>SKU type</u> (3 models)

Activyl® Dogs; Activyl® Cats; Activyl® TICK PLUS Dogs

- by <u>SKU size</u> (2 models)

Activyl® 6 X 6; Activyl® 22 X 1

- by <u>SKU type and size</u> (6 models)

Activyl® Dogs 6 X 6; Activyl® Cats 6 X 6; Activyl® TICK PLUS Dogs 6 X 6

Activyl® Dogs 22 X 1; Activyl® Cats 22 X 1; Activyl® TICK PLUS Dogs 22 X 1

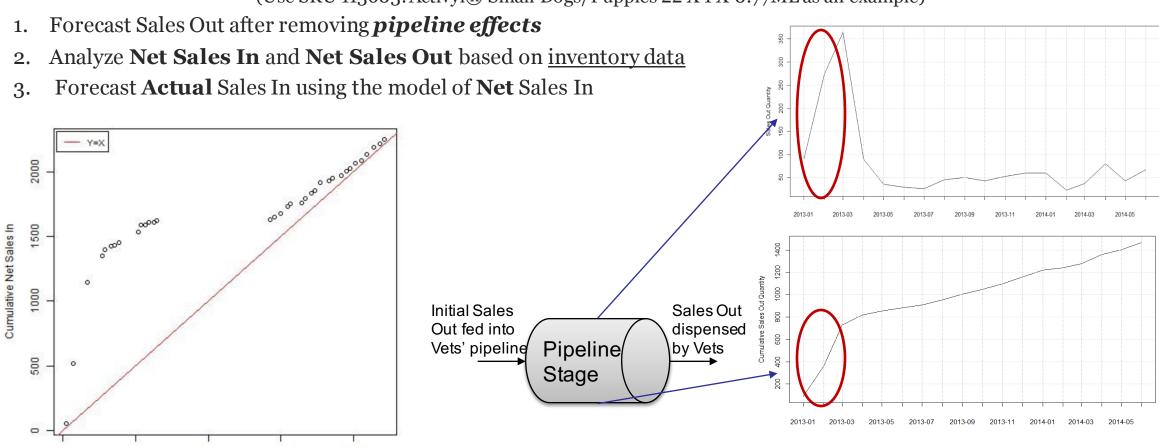


2. Forecasting Models - Activyl



• **Three steps** are needed for each level:

(Use SKU 113603: Activyl® Small Dogs/Puppies 22 X 1 X 0.77ML as an example)



2000

500

1000

Cumulative Net Sales Out

1500

3. Forecasting Accuracy Metrics



2 Forecast Accuracy Metrics were used to evaluate our models:

(1) Demand Forecst Accuracy =
$$1 - \left| \frac{2 month Forecast - 2 month ActualSales}{2 month Forecast} \right|$$
 - To be compared with EY's current model

- **Only** for Nobivac Sales Out
- **High** DFA is good (>85%)

$$\textbf{(2) Weighted Average} = \frac{Error(1st\ Month)}{2^{0}} + \frac{Error(2nd\ Month)}{2^{1}} + \frac{Error(3rd\ Month)}{2^{2}} + \frac{Error(4th\ Month)}{2^{3}} + \frac{1}{2^{2}} + \frac{1}{2^{2}} + \frac{1}{2^{3}}$$

Results



- Give **more weight** to the next first month forecast
- For Sales Out AND Sales In

Overview

- **Low** Weighted Average is good (<20%)

Results Agenda



Topic	Presenter
 Nobivac Sales Out Demand Forecast Accuracy Weighted Average Accuracy 	Benjamin
 Nobivac Sales In Weighted Average Accuracy Driving Factors Analysis High Error SKUs Analysis 	Shuang
 3. Activyl Sales Out Demand Forecast Accuracy Weighted Average Accuracy 	Shuang
4. Activyl Sales InWeighted Average AccuracyInventory Analysis	Shuang Anqi

1. Nobivac Sales Out – Demand Forecast Accuracy



Average DFA by Month and Model: [4-Month Forecast from Aug 2015 to Nov 2015]

$$DFA = 1 - \left| \frac{2 month Forecast of Sales Out - 2 month Actual Sales Out}{2 month Forecast of Sales Out} \right|$$

	EY Model	SKU Level	Cluster Level	Product Level
August + September DFA	80%	76%	88%	88%
September + October DFA	76%	85%	91%	87%
October + November DFA	71%	82%	86%	86%

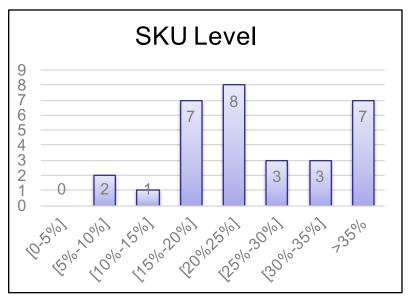
- ➤ Cluster Level has the highest monthly DFA average
- ➤ Use Sales Out predictions based on the cluster level to predict Sales In

1. Nobivac Sales Out – Weighted Average Accuracy

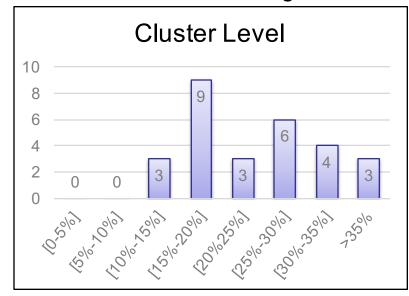


<u>Distribution of Weighted Average Metrics across all 31 skus of each level:</u>

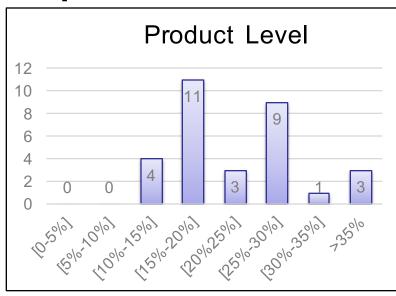
[4-Month Forecast from Aug 2015 to Nov 2015]



24 SKUs below 35% error



26 SKUs below 35% error



28 SKUs below 35% error

+ 3 SKUs to model individually:

- 53260: NOBIVAC® Puppy-DPv: 27.90%
- 54097: NOBIVAC® INTRA-TRAC® KC: 38.58%

Results

- 84987: NOBIVAC® Canine Flu H3N8: 43.94%

2. Nobivac Sales In – Driving Factors



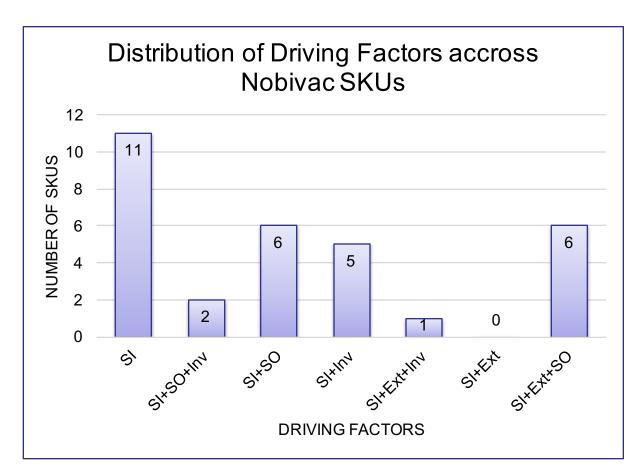
Driving Factors:

SO: Sales Out Forecast

<u>SI</u>: Historical Sales In

Inv: Inventory

Ext: External Market Data



Insights:

- All SKUs use historical SI
- SO is used to predict 14 SKUs
- INV helps forecasting 8 SKUs :

NOBIVAC® Feline 3-HCP
NOBIVAC® Feline 1-HCP+ FeLV
NOBIVAC® FeLV
NOBIVAC® Feline 1-HCPCh+ FeLV
NOBIVAC® Canine 1-DAPPvL2
NOBIVAC® Canine 3-DAPv
NOBIVAC® Canine 1-Cv
NOBIVAC® 3-Rabies CA

• **EXT** is used for 7 SKUs:

NOBIVAC® INTRA-TRAC® KC
NOBIVAC® INTRA-TRAC®3 ADT
NOBIVAC® Canine 1-DAPPvL4
NOBIVAC® Canine Flu H3N8
NOBIVAC® 3-Rabies CA
NOBIVAC® 3-Rabies
NOBIVAC® Feline 1-HCPCh

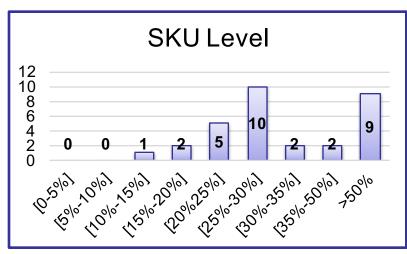
MERCK
Be well

2. Nobivac Sales In – Weighted Average Accuracy

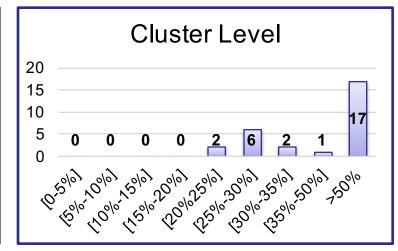


<u>Distribution of Weighted Average Metrics across all 31 skus of each level:</u>

[8-Month Forecast from Aug 2015 to Mar 2016]



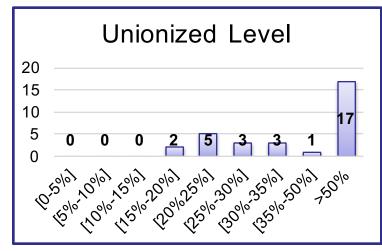
31 SKUs below 35% error





Notice: 3 "Outstanding" SKUs to model individually:

- 53260: NOBIVAC® Puppy-DPv: 22.36%
- 54097: NOBIVAC® INTRA-TRAC® KC: 82.26%
- 84987: NOBIVAC® Canine Flu H3N8: 77.56%



14 SKUs below 50% error

- SKU Level Model tends to outperform the other 2 models.
- Recommend using <u>SKU Level</u> model to forecast Sales IN.

2. Nobivac Sales In – High Error SKUs Analysis



2 SKUs have high error rate in both SKU level and Cluster Level method:

65440 99336 9 SKUs have high error rate in both Cluster level and Unionized Level method: 65289,65310,65314,65290, 65293,65300,65444,99336

Production Insights:

Comparison of actual sales in with production data shows production shortage for high error rate SKUs.

- Out of 29 SKUs,17 SKUs were under-produced
- (Notice: 2 SKUs are missing from production data)
- SKU 99336(Nobivac Canine 1-DAPPvL4 25x1DS 229 MRK) Was under-produced 75% of the time during the forecasting period.

1 SKU has high error rate in the three method levels: 99336

Cluster

Level:

12 High

Error SKUs

SKU Level:

5 High Error

SKUs

Product

Level:

14 High Error

SKUs

SKU Code	Description	Over/Under Production	Percentage
65289	Nobivac Canine 1-DAPPv+CV 25x1ds 229 MRK	Under	75%
65310	Nobivac Intra-Trac 3 150 x 1 ds 240	Under	100%
65314	Nobivac Intra-Trac 3 2 x 5ds 240	Under	87%
65290	Nobivac Canine 1-DAPPvL2 25x1 ds 229 MRK	Over	50%
65293	Nobivac Canine 1-DAPPvL2+Cv 25x1ds 229 M	Under	100%
65300	Nobivac Canine 1-Pv 25x 1 ds 229 MRK	Under	87%
65284	Nobivac Canine 1-Cv 25 x 1ds 240 MRK	Under	100%
99336	Nobivac Canine 1-DAPPvL4 25x1DS 229 MRK	Under	75%

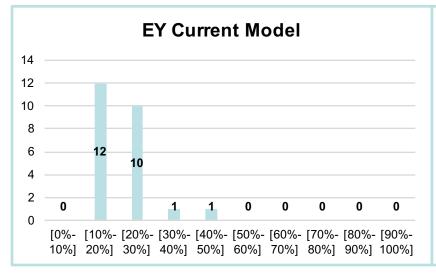


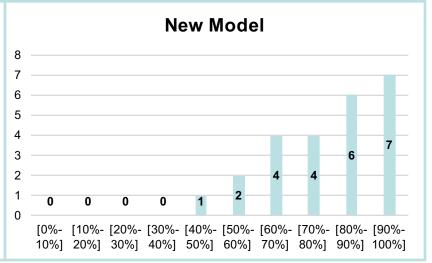
3. Activyl Sales Out – Demand Forecast Accuracy



Average DFA Distribution among 24 SKUs within 12-Month of Prediction

[8-Month Forecast from Jul 2013 to Jun 2014]





DFA: The highest, the better

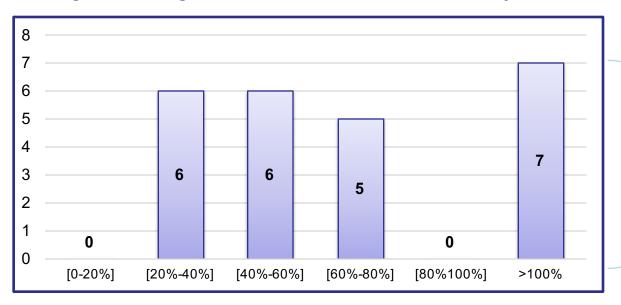
- All 24 SKUs had at least 100% improvements on DFA using our new model during the 11month period.
- (Notice, since 2 month of data were used to calculate monthly DFA, DFA is only available from Aug 2013 to June 2014.
- DFA improved percentages are ranged from 125% to 4339%.



3. Activyl Sales Out - Weighted average accuracy



Weighted average rrror Distribution across all 24 Actyvil skus:



Same distribution for all three levels (SKU, Cluster and Product Level)

Insights:

- Error Rate tends to be relatively higher than Nobivac.
- This is reasonable considering **Activyl is a new product** with **limited** data.
- Overall, new model **performs better** than the current one of EY.

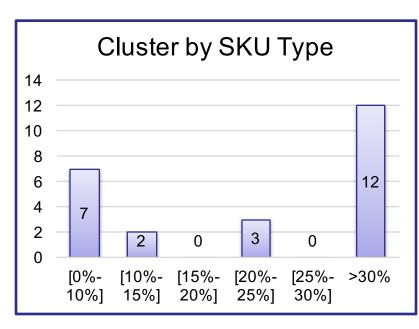


4. Activyl Sales In - Comparison of 3 Clustering Models

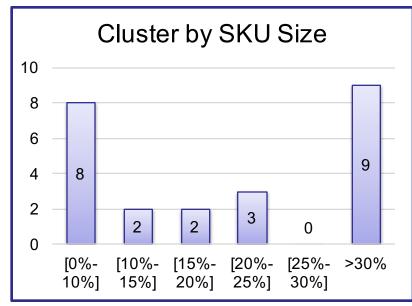


<u>Distribution of Weighted Average Metrics across all skus of each Cluster Model:</u>

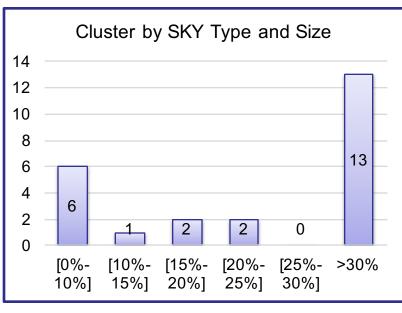
[8-Month Forecast from Jul 2013 to Jun 2014]



12 SKUs below 30% error



15 SKUs below 30% error



11 SKUs below 30% error

Cluster by SKU size tends to outperform the other 2 clustering methods.

Notice: **4 SKUs** needed to model individually:

- > 115627: ACTIVYLEXTRA LARGE DOGS 6x4.62ML 240
- > **114997**: ACTIVYL EXTRA LARGE DOGS 1x4.62ML 240
- > 114162: Activyl Tick plus X-Lg Dog 1x6ml 240
- > 24682: Activyl Tick plus X Lg Dog 6x6ml 240

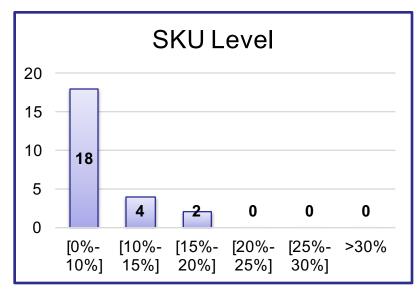


4. Activyl Sales In – Comparison of 3 Level Models

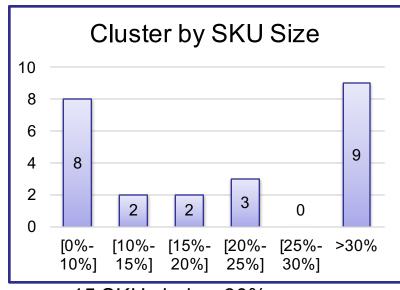


<u>Distribution of Weighted Average Metrics across all 24 skus of each level:</u>

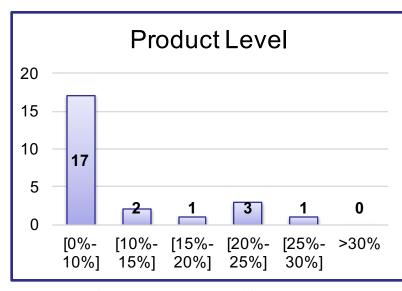
[8-Month Forecast from Jul 2013 to Jun 2014]



All 24 SKUs below 25% error



15 SKUs below 30% error



23 SKUs below 30% error

- SKU Level **outperforms** the other 2 levels.
- Recommend using Product Level model to **save time** and appy only one model

Notice: 4 SKUs needed to model individually:

- ➤ 115627: ACTIVYL EXTRA LARGE DOGS 6x4.62ML 240
- > 114997: ACTIVYL EXTRA LARGE DOGS 1x4.62ML 240
- > 114162: Activyl Tick plus X-Lq Dog 1x6ml 240
- 24682: Activyl Tick plus X Lg Dog 6x6ml 240



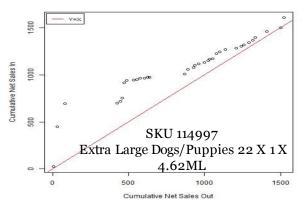
4. Activyl Sales In – Inventory Analysis



For the 4 SKUs of Extra Large Dogs:

Sales In follows a zig-zag shape

- Quantities are strongly **influenced by market demand** instead of historical values
- These SKUs should be modeled individually.



For the rest 12 SKUs of Dogs and Cats:

Pack size determines how Sales In behaves:

- Distributors have high expectations for SKUs with pack size 22 X 1
- SKUs with pack size 6 X 6 receives much less attention when they are launched
- Distributors tend to underestimate vets' demand of these 6 X 6 size

For 8 TICK PLUS SKUs of Dogs:

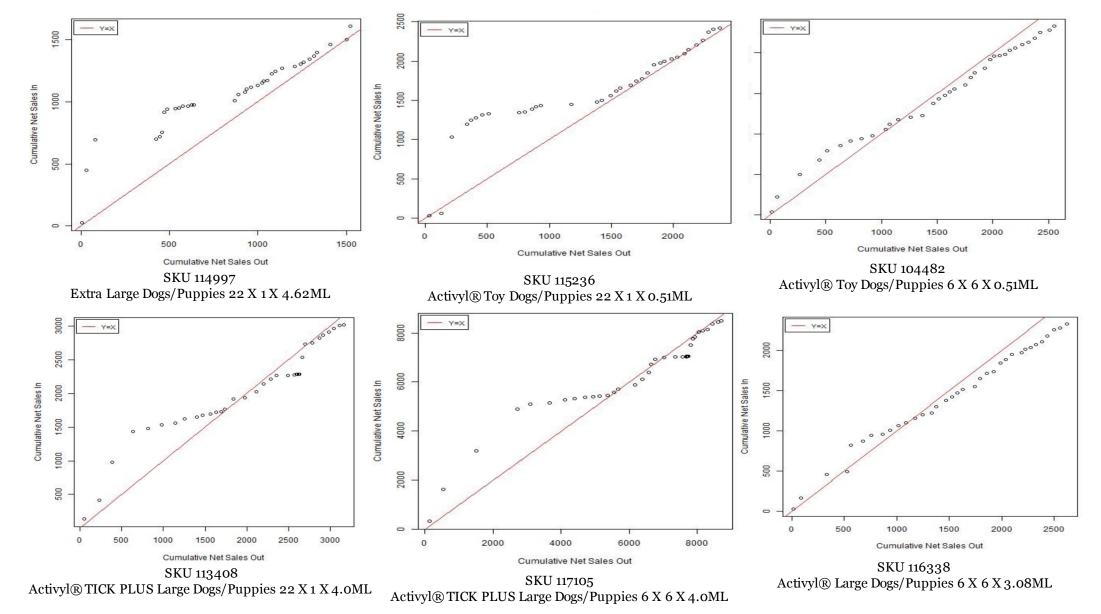
SKU type determines how **Sales In** behaves:

- SKUs with the same type but different pack size have similar trends in terms of Sales In.
- Distributors have a mild order policy since the product launch



4. Activyl Sales In – Inventory Analysis





Final Recommendations - Nobivac



Limitations

- At least 25 months of data are required for both Sales In and Sales Out forecasting models.
- Special events (e.g. BOGO promotions) are difficult to be captured.

Product

- Clusters SKUs based on correlations between Sales In quantities leads to the best level model
- Cluster Level model, 3 SKUs need to be modeled separately with SKU Level model
 - Notice, these 3 SKUs tend to be high-cost/high-seasonal product.

Sales Out Model

Use Sales Out predictions based on the <u>Cluster Level</u> to predict Sales In

Sales In Model

- •When forecasting Nobivac, <u>Historical Sales In</u> and <u>Forecast of Sales Out</u> data are the most important driven factors.
- •Recommend using **SKU Level** model since it outperforms the other 2 models.
- •Comparison of actual sales in with production data shows **production shortage** for high error rate SKUs.



Final Recommendations -Activyl



Assumptions

- Accurate data since the launch time (January 2013)
- The relationship between Net Sales In and Net Sales Out reflect the relationship between actual Sales In and actual Sales Out

Product

• <u>Clustering SKUs based on physical characteristics</u> (e.g. SKU type and pack size) helps identify Sales In and Sales out behavior. SKUs with irregular demand (e.g. extra large dogs) should be considered individually.

Model

- With very few data points available, all three types of model result in the same Sales Out forecasts.
- When forecasting Sales In, both <u>SKU-Level</u> and <u>Unionized</u> model work well. If a Cluster-Level model is needed, we recommend using the <u>Cluster-Level model by SKU size</u>.
- External market data might also be an useful factor. But due to the availability of data, it cannot be incorporated in the model.



Thank you!



Questions?

Appendix – Nobivac Clustering



	54215	99895	65448	65447	
C1	NOBIVAC® INTRA-			NOBIVAC® 3-Rabies	
	TRAC® KC	NOBIVAC® Lyme	NOBIVAC® 3-Rabies	CA	
	54219	65266	31664		
C2		NOBIVAC® Feline 1-	NOBIVAC® Feline 3-		
	NOBIVAC® Feline-Bb	HCPCh	HCP		
	65264	65265	65277	65267	
C3	NOBIVAC® Feline 1-	NOBIVAC® Feline 1-		NOBIVAC® Feline 1-	
	HCP	HCP+ FeLV	NOBIVAC® FeLV	HCPCh+ FeLV	
	65288	65289	65310	65313	65314
	NOBIVAC® Canine 1-	NOBIVAC® Canine 1-	NOBIVAC® INTRA-	NOBIVAC® INTRA-	NOBIVAC® INTRA-
	DAPPv	DAPPv+CV	TRAC®3	TRAC®3	TRAC®3
	65316	65440	65290	65293	65300
C4	NOBIVAC® INTRA-		NOBIVAC® Canine 1-	NOBIVAC® Canine 1-	NOBIVAC® Canine 1-
	TRAC®3 ADT	NOBIVAC® 3-Rabies	DAPPvL2	DAPPvL2+CV	Pv
	65441	65315	6772	65284	65444
		NOBIVAC® INTRA-	NOBIVAC® Canine 3-	NOBIVAC® Canine 1-	NOBIVAC® 3-Rabies
	NOBIVAC® 1-Rabies	TRAC®3 ADT	DAPv	Cv	CA
	68616				
C5		NOBIVAC® Canine 1-			
	NOBIVAC® Lepto4	DAPPvL4			
	53260	54097	84987	For C6, correlation	ns < 0.5
C6	NOBIVAC® Puppy-	NOBIVAC® INTRA-	NOBIVAC® Canine	•	: Model the 3 SKUs
	DPv	TRAC® KC	Flu H3N8		

Appendix – Activyl Clustering by Type



			(Cluster Model	1			
	104482	112173	107502	116338	115236	113603	104695	099646
C1	Activyl® Toy Dogs/Puppies 6 X 6 X 0.51ML	Activyl® Small Dogs/Puppies 6 X 6 X 0.77ML		Activyl® Large Dogs/Puppies 6 X 6 X 3.08ML	Dogs/Puppies 22 X 1 X	Activyl® Small Dogs/Puppies 22 X 1 X 0.77ML		Activyl® Large Dogs/Puppies 22 X 1 X 3.08ML
	044973	118926	106980	026072				
C2	Activyl® Kitten 6 X 6 X 0.51ML	Activyl® Cats 6 X 6 X 1.0ML	Activyl® Kitten 22 X 1 X 0.51ML	Activyl® Cats 22 X 1 X 1.0ML				
	111632	104721	108760	117105	090869	113314	119643	113408
C3	PLUS Toy Dogs/Puppies	PLUS Small Dogs/Puppies	•	•	PLUS Toy Dogs/Puppies 22 X 1 X	Activyl® TICK PLUS Small Dogs/Puppies 22 X 1 X 1.0ML	Activyl® TICK PLUS Medium Dogs/Puppies 22 X 1 X 2.0ML	

Appendix – Activyl Clustering by Size



			(Cluster Model	2			
	104482	112173	107502	116338	044973	118926	115236	113603
C1	6 X 6 X 0.51ML	Activyl® Small Dogs/Puppies 6 X 6 X 0.77ML	Dogs/Puppies 6 X 6 X 1.54ML	6 X 6 X 3.08ML	Activyl® Kitten 6 X 6 X 0.51ML	Activyl® Cats 6 X 6 X 1.0ML	22 X 1 X 0.51ML	Activyl® Small Dogs/Puppies 22 X 1 X 0.77ML
	Activyl® Medium Dogs/Puppies 22 X 1 X 1.54ML	099646 Activyl® Large Dogs/Puppies 22 X 1 X 3.08ML		Activyl® Cats 22 X 1 X 1.0ML	PLUS Toy Dogs/Puppies	PLUS Small Dogs/Puppies	Activyl® TICK PLUS Medium Dogs/Puppies 6 X 6 X 2.0ML	PLUS Large Dogs/Puppies
C2	Activyl® Toy Dogs/Puppies 22 X 1 X 0.51ML	113603 Activyl® Small Dogs/Puppies 22 X 1 X 0.77ML	104695 Activyl® Medium Dogs/Puppies 22 X 1 X 1.54ML	099646 Activyl® Large Dogs/Puppies 22 X 1 X 3.08ML	•	Activyl® TICK PLUS Small Dogs/Puppies 22 X 1 X 1.0ML	Activyl® TICK PLUS Medium Dogs/Puppies 22 X 1 X 2.0ML	PLUS Large

Appendix – Activyl Clustering by Size & Type



		Cluster Model 3	3	
	104482	112173	107502	116338
C1		Activyl® Small Dogs/Puppies 6 X 6 X 0.77ML	Activyl® Medium Dogs/Puppies 6 X 6 X 1.54ML	Activyl® Large Dogs/Puppies 6 X 6 X 3.08ML
	044973	118926		
C2	Activyl® Kitten 6 X 6 X 0.51ML	Activyl® Cats 6 X 6 X 1.0ML		
	115236	113603	104695	099646
СЗ		Activyl® Small Dogs/Puppies 22 X 1 X 0.77ML	Activyl® Medium Dogs/Puppies 22 X 1 X 1.54ML	Activyl® Large Dogs/Puppies 22 X 1 X 3.08ML
	106980	026072		
C4	Activyl® Kitten 22 X 1 X 0.51ML	Activyl® Cats 22 X 1 X 1.0ML		
	111632	104721	108760	117105
C5		PLUS Small Dogs/Puppies	Medium Dogs/Puppies	Activyl® TICK PLUS Large
	090869	113314	119643	113408
C6	Activyl® TICK PLUS Toy Dogs/Puppies 22 X 1 X 0.5ML	PLUS Small	Medium Dogs/Puppies 22 X 1 X	Activyl® TICK PLUS Large